



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Management Letter

Santa Cruz County

Year Ended June 30, 2005



Debra K. Davenport
Auditor General

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**STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL**

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

March 3, 2006

Board of Supervisors
Santa Cruz County
2150 North Congress Drive
Nogales, AZ 85621

Members of the Board:

In planning and conducting our single audit of Santa Cruz County for the year ended June 30, 2005, we performed the following as required by *Government Auditing Standards* (GAS) and Office of Management and Budget (OMB) Circular A-133:

- Considered the County's internal controls over financial reporting,
- Tested its internal controls over major federal programs, and
- Tested its compliance with laws and regulations that could have a direct and material effect on its financial statements and major federal programs.

All audit findings that are required to be reported by GAS and OMB Circular A-133 have been included in the County's Single Audit Reporting Package for the year ended June 30, 2005. In addition, our audit disclosed internal control weaknesses and instances of noncompliance with laws and regulations that do not meet the reporting criteria. Management should correct these deficiencies to ensure that it fulfills its responsibility to establish and maintain adequate internal controls and comply with laws and regulations. Our recommendations are described in the accompanying summary.

In addition, as required by Arizona Revised Statutes §41-1279.21(A)(1), we reviewed the County's financial records to evaluate whether the County used Highway User Revenue Fund monies and any other dedicated state transportation monies solely for authorized transportation purposes for the year ended June 30, 2005. Our review identified certain instances of noncompliance, which are described in the accompanying summary as Recommendation 1.

This letter is intended solely for the information of the Santa Cruz County Board of Supervisors and is not intended to be and should not be used by anyone other than the specified party. However, this letter is a matter of public record, and its distribution is not limited.

Should you have any questions concerning its contents, please let us know.

Sincerely,

Dennis L. Mattheisen, CPA
Financial Audit Director

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County Response

The County should ensure that state highway user revenues are spent according to state laws

Each year, the State distributes Highway User Revenue Fund (HURF) monies and a portion of the vehicle license tax (VLT) monies to the County and mandates that the County use these monies solely for highway and street purposes. During fiscal year 2005, the County received over \$3.9 million in HURF and restricted VLT monies. The County used most of these monies to help finance highway and street construction, repairs, and maintenance. However, the County also used HURF and restricted VLT monies to pay \$104,555 for insurance premiums to the Arizona Counties Insurance Pool, \$44,283 to maintain restroom facilities on county roads, and \$755 for a road fund employee used for traffic control at a local arts festival. These expenditures are considered unallowable under Article IX, §14 of the Arizona Constitution and Attorney General Opinion No. I05-003.

The County should develop written policies that clearly define the allowable uses of HURF and restricted VLT monies and ensure that its transportation department follows these policies. In addition, the County should review and approve the proposed uses of these monies to help ensure that they are spent in accordance with the Arizona Constitution. Finally, the County should allocate \$149,593 of local revenues for highway and street purposes to replenish the monies it spent inappropriately during fiscal year 2005.

The County should not loan public monies or provide employee benefits to private organizations

The Arizona Constitution, Article IX, §7 states that counties shall not give or loan its credit in the aid of or make any donation or grant by subsidy to any individual, association, or corporation. Furthermore, the Arizona State Retirement System Employer Manual states that private employers are not eligible for membership in the state retirement system. However, the County made loans to a local nonprofit organization to cover the organization's payroll costs. In addition, the County allowed the organization's employees to participate in the County's employee benefit programs including membership in the Arizona State Retirement System. Even

though the County was reimbursed for all payroll costs by the nonprofit organization, including the employer portion of benefit costs, the nonprofit organization is a separate entity from the County that solicits grants on its own behalf. Therefore, the nonprofit organization was ineligible to receive loans from the County, and the organization's employees were not entitled to county employee benefits. Total payroll and payroll-related costs for the fiscal year were \$136,409. It was not practical to extend our audit to determine the amounts from previous fiscal years.

To help ensure compliance with the Arizona Constitution and the Arizona State Retirement System eligibility requirements, the County must not make loans to private organizations or provide county benefits to private employees. Instead, the County may want to consider taking over the nonprofit function, assume its grants, and hire its employees, if appropriate and legal for the County's purposes. Further, the County should contact the Arizona State Retirement System and obtain refunds for monies paid into the retirement system on behalf of the nonprofit organization for its employees.



**ADMINISTRATIVE SERVICES
SANTA CRUZ COUNTY**

Jennifer K. St. John, CPA
Director

February 21, 2006

Ms. Debbie Davenport, Auditor General
State of Arizona, Office of the Auditor General
2910 North 44th Street, Suite 410
Phoenix, AZ 85018

Dear Ms. Davenport:

In response to the Management Letter for the County's audit for the fiscal year ended June 30, 2005, I concur in general with the finding and will establish guidelines to improve the areas noted in the report.

The County should ensure that state highway user revenues are spent according to state laws. Concur in general. The County felt that the payment to the Arizona Counties Insurance Pool was allowable and have since supported Maricopa County in discussions with the Attorney General's Office to challenge this portion of the Opinion. For the payments to maintain roadside restrooms and traffic control at the local arts festival, the County has implemented proper procedures so that we do not have these findings again. Finally, the County did not replenish the transportation fund for the \$149,593 as the transportation fund still owed the County \$168,394 for the annual indirect costs allowed to be charged the transportation fund.

The County should not loan public monies or provide employee benefits to private organizations. Concur. The County originally brought this issue to the Auditor General's Office and requested resolution. We are in the process of completely resolving this issue as stated in this finding.

Sincerely,

Jennifer K. St. John, CPA
Administrative Services Director